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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2017.

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Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2017

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Letters of transmittal

Letter dated 29 March 2018 from the Secretary-General to the Chair of the Board of Auditors

In accordance with financial regulation 6.2, I have the honour to submit herewith the financial statements of the United Nations Compensation Commission for the year ended 31 December 2017, which I hereby approve. The financial statements have been completed and certified by the Controller as correct in all material respects.

(*Signed*) António **Guterres**

Letter dated 24 July 2018 from the Chair of the Board of Auditors addressed to the Secretary-General

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2017.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

I. Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Compensation Commission, which comprise the statement of financial position (statement I) as at 31 December 2017 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III) and the statement of cash flows (statement IV) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the United Nations Compensation Commission as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the United Nations Compensation Commission, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The Secretary-General is responsible for the other information, which comprises the financial report for the year ended 31 December 2017, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as the Secretary-General determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary-General is responsible for assessing the ability of the United Nations Compensation Commission to continue as

a going concern, disclosing matters related to the going concern and using the going-concern basis of accounting unless the Secretary-General intends either to liquidate the United Nations Compensation Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the United Nations Compensation Commission.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the United Nations Compensation Commission.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary-General.

- Draw conclusions as to the appropriateness of the Secretary-General's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of the United Nations Compensation Commission to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the United Nations Compensation Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings,

including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Compensation Commission that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations Compensation Commission.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

II. Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the United Nations Compensation Commission for the year ended 31 December 2017, which have been prepared under the International Public Sector Accounting Standards (IPSAS). The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations as well as the International Standards on Auditing.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the Commission as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Overall conclusion

The Commission's operating reserve improved from $7.8 million in 2016 to $8.1 million in 2017, representing a 3.78 per cent increase. The Commission's financial position remained sound. The Board found no material misstatements that would affect its opinion on the financial statements of the Commission. The Board notes that the Governing Council of the Commission, at its fifteenth special session, in November 2017, welcomed receipt of a proposal put forward by the Government of Iraq and accepted by the Government of Kuwait and adopted decision 276 (2017), which provided for the resumption of deposits to the United Nations Compensation Fund in January 2018.

Key audit findings

Nature of the Commission's budget

The financial statements of the Commission were prepared in accordance with the Financial Regulations and Rules of the United Nations. Rule 106.1 stipulates that the financial statements shall include a statement of comparison of budget and actual amounts, on the basis of the budget. However, the said statement was not prepared by the Commission, as the budget of the Commission is not a publicly available record.

The Board observed that the nature of the Commission's budget being non-public was not disclosed anywhere in the financial statements.

Need to update the completion strategy and exit plan for the Commission

At its fifteenth special session, the Governing Council of the Commission welcomed the proposal of the Government of Iraq for the resumption of deposits into the United Nations Compensation Fund in 2018 and adopted decision 276 (2017), which provided for the resumption of deposits in January 2018. On the basis of oil prices and export projections, it is expected that the $4.6 billion in outstanding compensation will be paid in full by the end of 2021.

Taking into consideration the projections of deposits and payment of the remaining claim, the United Nations Compensation Commission should review and revise its winding-up plan with respect to staffing resources, assets, space and archiving.

Main recommendations

In the light of its findings, the Board recommends that the Commission:

(a) **Disclose the fact of its budget not being public in the notes to the financial statements;**

(b) **Update its work plan for the completion strategy and exit plan, incorporating measurable and achievable outputs, including rationalization of the use of space.**

Key facts	
$26.35 million	Total assets in 2017, down from $27.25 million in 2016
$18.27 million	Total liabilities in 2017, down from $19.47 million in 2016
$8.08 million	Net assets in 2017, up from $7.79 million in 2016
$1.22 million	Total expenses in 2017, down from $1.33 million in 2016

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Compensation Commission and has reviewed its operations for the financial period ended 31 December 2017 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations as well as the International Standards on Auditing.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of the Commission as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Governing Council. The Board's report was discussed with the management of the Commission, whose views have been appropriately reflected.

B. Findings and recommendations

1. Follow-up of previous recommendations

4. The Board followed up on the implementation of its previous recommendations and verified the status of outstanding recommendations. Of the two outstanding recommendations up to the year ended 31 December 2016, the UNCC has fully implemented one recommendation (50 per cent) and one recommendation (50 per cent) has been overtaken by events. The annex to the present report contains details of the status of implementation of the Board's previous recommendations.

2. Financial overview

5. The Compensation Commission is a subsidiary organ of the Security Council and was established in accordance with Security Council resolution 687 (1991) to process claims and pay compensation for damages arising as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990-2 March 1991). The Compensation Fund, from which the awarded claims would be paid, was also established pursuant to resolution 687 (1991). In a report submitted to the Security

Council in compliance with resolution 687 (S/22559), the Secretary-General stipulated that the Compensation Fund would be established as a special account of the United Nations.

6. In total, the Compensation Commission received approximately 2.69 million claims seeking approximately $352.50 billion in compensation and approved awards of approximately $52.40 billion in respect of approximately 1.54 million of those claims (representing roughly 15 per cent of the amount claimed). As at 31 December 2017, the Commission had paid $47.80 billion.

7. Funds to pay compensation were drawn from the Compensation Fund, in which deposits were received from Iraq at a defined percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products, pursuant to Security Council resolutions 1483 (2003) and 1956 (2010). From October 2014 to December 2017, deposits into the Compensation Fund and the payment of claims were postponed by the Council in response to requests received from the Government of Iraq. An amount of $4.6 billion in respect of only one claim remains outstanding to be paid. During the year 2017, Iraq did not make any deposits to the Compensation Fund, nor was any compensation paid by the Commission. Under Governing Council decision 276 (2017), deposits to the Compensation Fund were to resume on 1 January 2018.

8. Table II.1 depicts the key financial ratios for the Commission. With a ratio of total assets to total liabilities of 1.44, the Commission remained in very good financial health. All cash ratios reflected the strong solvency status of the Commission.

Table II.1
Financial ratios

Description of ratio	*31 December 2017*	*31 December 2016*
Current ratio[a]		
Current assets: current liabilities	1.69	1.57
Total assets: total liabilities[b]		
Assets: liabilities	1.44	1.40
Cash ratio[c]		
Cash + investments: current liabilities	1.69	1.56
Quick ratio[d]		
Cash + investments + accounts receivable: current liabilities	1.69	1.57

Source: United Nations Compensation Commission financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds that is there in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

3. Financial statements

Non-public nature of the Commission's budget

9. The financial statements of the Commission were prepared in accordance with the provisions of the Financial Regulations and Rules of the United Nations. Rule 106.1 that the financial statements shall include a statement of comparison of budget and actual amounts, on the basis of the budget. However, the budget statement was not prepared by the Commission as the budget of the Commission is not a publicly available record.

10. The Board noted that the nature of the Commission's budget being non-public has not been disclosed anywhere in the financial statements.

11. The Administration replied that such a disclosure was not a requirement under IPSAS. The Board is of the opinion that the non-public nature of the Commission's budget is important information for readers of the financial statements and that this fact should be disclosed in the notes to the financial statements.

12. **The Board recommends that the Commission disclose the fact of its budget not being public in the notes to the financial statements.**

4. Completion of the mandate

Need to update the completion strategy and exit plan for the Commission

13. The Commission initiated the liquidation process in 2014, with the expectation that its mandate would be fulfilled by 2015. The Office of Internal Oversight Services (OIOS) audited the liquidation planning process of the Commission in 2014 (OIOS report No. 2014/067) and concluded that the Commission had adequate arrangements in place for the planning and reporting of the liquidation process.

14. However, with three successive one-year postponements of Iraq's deposit obligations under Governing Council decisions 272 (2014), 273 (2015) and 274 (2016), there have been no deposits into the Compensation Fund and no payments made towards the outstanding claim since 2014.

15. The Governing Council, at its fifteenth special session in November 2017, welcomed the proposal put forward by the Government of Iraq and accepted by the Government of Kuwait to resume deposits into the Compensation Fund in 2018. The Board noted that, on the basis of oil prices and export projections, payment in full of the outstanding award is expected by the end of 2021.

16. The Commission, which was established in 1991, had at its peak nearly 300 employees. With the conclusion of claims processing in 2007, the number of posts was reduced to 12 in 2012 and further declined to three in 2017. Two of the three remaining staff members, including the Executive Head of the Commission, are Professionals and are due to retire between 2022 and 2024. A staffing strategy needs to be put in place to ensure continued employment of the permanent staff as well as continuity of the Commission's operations.

17. The process of archiving records and transferring records to United Nations Headquarters for digitalizing and storage has been initiated and the majority of records identified for permanent retention have been transferred to the Archives and Records Management Section. A road map and blueprint of the plan for archiving and transferring to United Nations Headquarters the records remaining in 2021 needs to be finalized.

18. The Commission entered into a lease agreement with the United Nations Office at Geneva to acquire office space of nine rooms, measuring 186.95 square metres, for a period of one year from January 2012. In addition, the United Nations Office at Geneva provided 158.41 square metres of storage space free of charge. In January 2015, the agreement was revised to reduce the office space to five rooms measuring 113.40 square metres. Since August 2016, the Commission staff has occupied only 83.64 square metres of space, its number having been reduced to three, with the remaining 29.76 square metres of office space being utilized for storage of documents.

19. The Board is of the opinion that, taking into consideration the projections of deposits and payment of the remaining claim, the Commission has not updated its winding-up plan with respect to its staffing resources, assets, space and archiving issues.

20. The Commission acknowledged that, with the resumption of deposits and payments in 2018, its work plan needed to be updated to reflect the indicative timeline of 2021.

21. **The Board recommends that the Commission update its work plan for the completion strategy and exit plan, incorporating measurable and achievable outputs, including rationalization of the use of space.**

C. Disclosures by management

Write-off of losses of cash, receivables and property

22. The Commission informed the Board that there were no write-offs of losses of cash, receivables or property during the year 2017.

Ex gratia payments

23. The Commission reported no ex gratia payments for the year ended 31 December 2017.

Cases of fraud, presumptive fraud and financial mismanagement

24. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

25. During the audit, the Board made enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that have been brought to its attention. The Board also enquired as to whether management had any knowledge of any actual, suspected or alleged fraud.

26. The Commission reported no cases of confirmed fraud or presumptive fraud for the year ended 31 December 2017.

D. Acknowledgement

27. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Head and other staff at the Commission.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

Annex

Status of implementation of recommendations up to the period ended 31 December 2016

No.	*Audit report*	*Paragraph reference*	*Recommendations of the Board*	*Response of the Commission*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Overtaken by events*	*Not implemented*
1.	S/2017/644	Chap. II, para. 11	Take advantage of the introduction of the Umoja system and ensure recognition of the cost of services provided by the United Nations Office at Geneva on an accrual basis	In the financial statements of 2017 the expenses of the United Nations Office at Geneva are recognized on an accrual basis	The Board noted that the action taken by the Commission and consider the recommendation as implemented	X			
2.	S/2017/644	Chap. II, para. 17	Establish a formal agreement with the Government of Iraq regarding the mechanism for the recommencement of deposits once there is further clarity regarding Iraq's ability to recommence deposits	The Commission received a note verbale from the Permanent Mission of Iraq confirming the resumption of deposits. Deposits resumed in January 2018	The recommendation has been overtaken by the events			X	
Total						**1**		**1**	
Percentage						**50**		**50**	

III. Certification of the financial statements

Letter dated 23 March 2018 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Compensation Commission have been prepared in accordance with rule 106.1 of the Financial Regulations and Rules of the United Nations.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information and clarifications of the financial activities undertaken by the Commission during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission, numbered I to V, are correct in all material respects.

(*Signed*) Bettina Tucci **Bartsiotas**
Assistant Secretary-General
Controller

IV. Financial report for the year ended 31 December 2017

A. Introduction

1. The Secretary-General has the honour to submit herewith the financial report on the accounts of the United Nations Compensation Commission for the year ended 31 December 2017.

2. The present report is designed to be read in conjunction with the financial statements. Attached hereto is an annex that includes supplementary information that is required to be reported to the Board of Auditors under the Financial Regulations and Rules of the United Nations.

3. The Compensation Commission is a subsidiary organ of the Security Council. It was established in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process claims and pay compensation for direct losses and damage suffered by individuals, corporations, Governments and international organizations as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990–2 March 1991). The Commission is currently composed of the Governing Council and the secretariat. The Governing Council is the policymaking organ of the Commission. Its composition is the same as that of the 15-member Security Council at any given time. The secretariat, headed by the Executive Head, services and provides assistance to the Governing Council.

4. Approximately 2.7 million claims, with an asserted value of $352.5 billion, were filed with the Commission. The Commission concluded claims processing in 2005, and the total compensation awarded was $52.4 billion, to more than 1.5 million successful claimants. Funds to pay compensation are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. By Security Council resolution 1483 (2003), this percentage was reduced from 25 per cent to 5 per cent. In its resolution 1956 (2010), the Council reaffirmed the 5 per cent level and further decided that 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers shall also be deposited into the Compensation Fund.

5. With the adoption of its decisions 272 (2014), 273 (2015) and 274 (2016), the Governing Council postponed Iraq's obligation to deposit 5 per cent of oil proceeds into the Compensation Fund from October 2014 until 1 January 2018. Accordingly, the Commission made no payments towards the remaining claim during 2017, leaving $4.6 billion outstanding. As at 31 December 2017, the Commission had paid approximately $47.8 billion in compensation for distribution to successful claimants in all categories.

6. On 3 October 2017, the Governing Council adopted decision 275 (2017), in which it called upon the Governments of Iraq and Kuwait to present options for the Council's consideration that would ensure the final payment of compensation towards the outstanding award by the end of 2021. At a special session held on 21 November 2017, the Governing Council adopted decision 276 (2017), which provides for 0.5 per cent of proceeds from export sales of petroleum, petroleum products and natural gas and of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund from 1 January 2018 to 31 December 2018; 1.5 per cent of such proceeds to be

deposited into the Compensation Fund from 1 January 2019 to 31 December 2019; and 3 per cent of such proceeds to be deposited into the Compensation Fund from 1 January 2020 until such time as the outstanding compensation award has been paid in full. With the resumption of deposits to the Fund in 2018, this decision also provides for the resumption of payments of compensation towards the outstanding award to resume in 2018 in accordance with the payment mechanism set out in decision 267 (2009).

B. Overview of the financial statements for the year ended 31 December 2017

7. Financial statements I, II, III and IV show the financial results of the Commission's activities. The notes to the financial statements explain the Commission's accounting and financial reporting policies and provide additional information on the individual amounts contained in the statements. As the budget of the Commission is not publicly available, the Commission is not required under IPSAS to include statement V, statement of comparison of budget and actual amounts.

Revenue

8. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. In 2017, the Commission's budget was funded from the Compensation Fund, in accordance with the directives of the Committee on Administrative Matters of the Governing Council, and, accordingly, the Commission recognized revenue in 2017.

Expenses

9. Under IPSAS, expenses are recorded in the financial statements on an accrual basis when goods and/or services have been received. The 2017 expenses totalled $1.218 million. The main expense category was staff costs of $0.681 million, which constituted 55.9 per cent of the total expenses. Other expenses included contractual services of $0.046 million (3.8 per cent), other operating expenses of $0.490 million (40.2 per cent) and travel costs of $0.001 million (0.1 per cent). Total expenses incurred in 2016 amounted to $1.333 million, and the decrease in expenses in 2017 was due mainly to a reduction in staff costs, partially offset by an increase of costs for meetings of the Governing Council.

Operating result

10. As a result of the Commission's budget being funded from the Compensation Fund with a recognition of the corresponding revenue, the statement of financial performance shows a surplus for the year.

Assets

11. Assets as at 31 December 2017 totalled $26.351 million, compared with a total of $27.251 million as at 31 December 2016.

12. The main assets at 31 December 2017 were investments and cash and cash equivalents of $26.336 million, representing 99.9 per cent of the total assets, all of which were held in the main cash pool. This relates to the oil revenue received but

not paid towards the outstanding compensation awards and funds to cover liabilities associated with employee benefits.

Liabilities

13. Liabilities as at 31 December 2017 totalled $18.271 million, compared with the balance at 31 December 2016 of $19.465 million, which reflects the drawdown of the Compensation Fund for the Commission's budget for 2017.

14. The largest liability ($12.038 million), representing 65.9 per cent of the total liabilities, relates to the accounts payable: compensation awards which will be applied to the payment of compensation awards once payments resume in 2018.

15. The other significant liability is the non-current liability for employee benefits earned by staff members and retirees amounting to $6.087 million, which relates primarily to after-service health insurance, representing 33.3 per cent of total liabilities.

Net assets

16. The increase of $0.294 million in net assets during the year reflects a surplus for the year of $0.244 million and actuarial gains on employee benefits liabilities of $0.050 million. The net asset position of $8.080 million reflects the operating reserve of the Commission.

Liquidity position

17. The financial matters of the Commission are driven primarily by the oil receipts from Iraq and the payments of compensation awards. With the postponement of the deposits into the Compensation Fund, the Commission has at its disposal the amount remaining in the operating reserve of $8.080 million. In addition, pursuant to Security Council resolution 692 (1991), the administrative expenses of the Commission can be drawn from the Compensation Fund. Accordingly, the Commission also has at its disposal the amount remaining in the accounts payable for compensation awards of $12.038 million. Therefore, the liquidity of the operations of the Commission is assured.

V. Financial statements for the year ended 31 December 2017

United Nations Compensation Commission
I. Statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Assets — funds held in trust			
Current assets			
Cash and cash equivalents	4, 5	2 074	7 505
Investments	4, 5	18 466	13 287
Receivables from other United Nations entities	4	–	60
Deferred expenditure	4	15	1
Total current assets		**20 555**	**20 853**
Investments	4, 5	5 796	6 398
Total non-current assets		**5 796**	**6 398**
Total assets		**26 351**	**27 251**
Liabilities and funds held in trust			
Current liabilities			
Accounts payable: compensation awards	6	12 038	13 138
Other accounts payable and accrued liabilities	4	12	22
Employee benefits liabilities	7	134	152
Total current liabilities		**12 184**	**13 312**
Non-current liabilities			
Employee benefits liabilities	7	6 087	6 153
Total non-current liabilities		**6 087**	**6 153**
Total liabilities		**18 271**	**19 465**
Net of total assets and total liabilities		**8 080**	**7 786**
Net assets			
Operating reserve	8	8 080	7 786
Net assets		**8 080**	**7 786**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission
II. Statement of financial performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Revenue			
Revenue	9	1 462	1 914
Investment revenue	9	–	8
Total revenue		**1 462**	**1 922**
Expenses			
Employee salaries, allowances and benefits	10	681	866
Contractual services	10	46	37
Travel	10	1	16
Other operating expenses	10	490	414
Total expenses		**1 218**	**1 333**
Surplus/(deficit) for the year		**244**	**589**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission
III. Statement of changes in net assets for the year ended 31 December 2017

(Thousands of United States dollars)

	Note	*Operating reserve*
Net assets as at 1 January 2016		**6 858**
Changes in net assets during 2016		
Actuarial gains/(losses) on employee benefits liabilities	7	339
Surplus for the year		589
Total		**928**
Net assets as at 31 December 2016		**7 786**
Changes in net assets during 2017		
Actuarial gains/(losses) on employee benefits liabilities	7	50
Surplus for the year		244
Total		**294**
Net assets as at 31 December 2017		**8 080**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission
IV. Statement of cash flows for the year ended 31 December 2017

(Thousands of United States dollars)

Cash flows from operating activities	*31 December 2017*	*31 December 2016*
Surplus/(deficit) for the period	**244**	**589**
Non-cash movements		
Actuarial gains/(losses) on employee benefits liabilities	50	339
Changes in assets		
(Increase)/decrease in accounts receivable	–	–
(Increase)/decrease in receivables from other United Nations entities	60	241
(Increase)/decrease in deferred expenditure	(14)	44
Changes in liabilities		
Increase/(decrease) in accounts payable: compensation awards	(1 100)	(1 696)
Increase/(decrease) in accounts payable: funds withheld under the Follow-up Programme for Environmental Awards	–	(2 298)
Increase/(decrease) in other accounts payable and accrued liabilities	(10)	(392)
Increase/(decrease) in employee benefits liabilities	(84)	(329)
Net cash flows from/(used in) operating activities	**(854)**	**(3 502)**
Cash flows from investing activities		
Net change in the main cash pool investments	(4 577)	6 019
Net cash flows from/(used in) investing activities	**(4 577)**	**6 019**
Cash flows from financing activities	–	–
Net cash flows from/(used in) financing activities	–	–
Net increase/(decrease) in cash and cash equivalents	**(5 431)**	**2 517**
Cash and cash equivalents — beginning of year	7 505	4 988
Cash and cash equivalents — end of year	**2 074**	**7 505**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission
Notes to the 2017 financial statements

Note 1
Reporting entity

The United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations was signed on 26 June 1945 and became effective on 24 October 1945. The primary objectives of the United Nations are as follows:

- The maintenance of international peace and security
- The promotion of international economic and social progress and development programmes
- The universal observance of human rights
- The administration of international justice and law.

2. These objectives are implemented through the Organization's major organs, as follows:

- The General Assembly focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the United Nations
- The Security Council is responsible for various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs and oversee the prosecution of persons responsible for serious violations of international humanitarian law
- The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems
- The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations has its headquarters in New York and has major offices in Geneva, Vienna and Nairobi. It has peacekeeping and political missions, economic commissions, tribunals, training institutes and information and other centres around the world.

Reporting entity

4. The present financial statements relate to the United Nations Compensation Commission, which was established in 1991 in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process and pay claims for direct loss, damage, or injury arising from the invasion and occupation of Kuwait by Iraq (2 August 1990–2 March 1991) and to administer a compensation fund from which to pay successful claims.

5. The Governing Council of the Commission established the Follow-up Programme for Environmental Awards in 2005, in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia, to monitor the financial and technical aspects of 26 environmental remediation and restoration projects being undertaken by the participating Governments with funds awarded by the Commission. The mandate under the Programme was considered fulfilled in late 2013.

6. The Commission is regarded as an autonomous financial reporting entity that neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and mandate of the Commission, it is not deemed to be subject to common control for the purposes of financial reporting under the International Public Sector Accounting Standards (IPSAS). The Commission has no interests in associates or joint ventures. Therefore, the present statements relate only to the operations of the United Nations Compensation Commission.

7. The Commission's headquarters is located at the United Nations Office at Geneva.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

8. Pursuant to the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with IPSAS. In accordance with the requirements of IPSAS, the financial statements, which present fairly the assets, liabilities, revenue and expenses of the Commission and the cash flows over the financial year, consist of the following:

- Statement I: statement of financial position
- Statement II: statement of financial performance
- Statement III: statement of changes in net assets
- Statement IV: statement of cash flows using the indirect method
- A summary of significant accounting policies and other explanatory notes.

Going concern and winding-up of the Commission

9. The financial statements have been prepared on a going-concern basis, and the accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of the financial statements. The going-concern assertion is based on the continued application of Security Council resolutions 1483 (2003) and 1956 (2010) and the fact that compensation amounting to $4.6 billion remains to be paid. With the adoption of its decisions 272 (2014), 273 (2015) and 274 (2016), the Governing Council postponed Iraq's obligation to deposit 5 per cent of oil proceeds into the Compensation Fund from October 2014 until 1 January 2018. On 3 October 2017, the Governing Council adopted decision 275 (2017), in which it called upon the Governments of Iraq and Kuwait to present options for the Council's consideration that would ensure the final payment of compensation towards the outstanding award by the end of 2021. On the basis of a proposal put forward by the Government of Iraq regarding the percentages to be deposited into the Compensation Fund and the acceptance of the proposal by the Government of Kuwait, the Governing Council adopted decision 276 (2017) at a special session on 21 November 2017. This decision provides for the resumption of deposits at 0.5 per cent of oil export proceeds, with escalating percentages through to 2021. Under this decision, payments of compensation towards the outstanding award will also resume in 2018 in accordance

with the payment mechanism set out in decision 267 (2009). Based on current oil price and export projections, this would result in payment in full of the outstanding award, and the conclusion of the Commission's mandate, by the end of 2021. In this regard, the mandate of the Commission is considered to be ongoing.

Measurement basis

10. The financial statements are prepared using the historical cost convention, except for certain investments and assets recorded at fair value through surplus or deficit, as stated in the notes to the financial statements. The financial statements are prepared for the year from 1 January to 31 December.

Fund accounting

11. Financial information is maintained on a fund-accounting basis in the Commission. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective.

Functional and presentation currency

12. The functional currency and the presentation currency of the Commission is the United States dollar. The financial statements are expressed in thousands of United States dollars unless otherwise stated.

13. Transactions in currencies other than the functional currency (foreign currencies) are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are translated at the United Nations operational rates of exchange. Non-monetary foreign currency-denominated items that are measured at fair value are translated at the United Nations operational rate of exchange at the date on which the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not translated at year-end.

14. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized as a change in the statement of financial performance on a net basis.

Materiality and use of judgment and estimation

15. Materiality is central to the preparation and presentation of the financial statements, and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

16. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies, and in the reported amounts of certain assets, liabilities, revenues and expenses.

17. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization

methods for property, plant and equipment/intangible assets; impairment of assets; classification of financial instruments; valuation of inventory; inflation and discount rates used in the calculation of the present value of provisions; and classification of contingent assets/liabilities.

Future accounting pronouncements

18. The progress and impact of the following significant future IPSAS Board accounting pronouncements on the Commission's financial statements continues to be monitored:

- Heritage assets: the project objective is to develop accounting requirements for heritage assets;
- Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;
- Revenue: the scope of the project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);
- Leases: the objective of the project is to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying International Financial Reporting Standards. The project will result in a new IPSAS that will replace IPSAS 13. Approval of a new IPSAS on leases is projected for June 2019;
- Public sector measurement: the objectives of this project include to (i) issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure; (ii) provide more detailed guidance on the implementation of replacement cost and cost of fulfilment and the circumstances under which these measurement bases will be used; and (iii) address transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs.

Recent and future requirements of the International Public Sector

Accounting Standards

19. The table below provides details of IPSAS standards 34 to 38, issued by the IPSAS Board in 2015 and effective 1 January 2017; IPSAS 39, issued in 2016 and effective 1 January 2018; and IPSAS 40, issued in 2017 and effective 1 January 2018. These standards do not affect the Commission's financial statements for 2017, as the Commission's activities do not come under the scope of the standards.

Standard	*Anticipated impact in the year of adoption*
IPSAS 34	The requirements for separate financial statements in IPSAS 34 are very similar to the requirements of the repealed IPSAS 6: Consolidated and separate financial statements.
IPSAS 35	IPSAS 35 still requires that control be assessed having regard to benefits and power, but the definition of control has changed and the standard now provides considerably more guidance on assessing control.

Standard	*Anticipated impact in the year of adoption*
	The other key change introduced by IPSAS 35 is the elimination of the IPSAS 6 exemption from consolidation of temporarily controlled entities.
IPSAS 36	A key change introduced by IPSAS 36 is the elimination of the IPSAS 7 exemption from application of the equity method where joint control or significant influence is temporary. The scope of IPSAS 36 is limited to entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.
IPSAS 37	IPSAS 37 introduces new definitions and has a significant impact on the way joint arrangements are classified and accounted for. These financial statements include joint venture arrangements accounted for using the equity method.
IPSAS 38	IPSAS 38 increases the extent of disclosures required for interest in other entities.
IPSAS 39	IPSAS 39 has no impact on the Commission since the "corridor method" of accounting for actuarial gains or losses, which is being eliminated, has never been applied since the adoption of IPSAS in 2014. The Commission does not have any plan assets; therefore, there is no impact from application of the net interest approach prescribed by the standard. IPSAS 39 will be effective from 1 January 2018.
IPSAS 40	There is no impact on the Commission's financial statements from the application of IPSAS 40 for 2017, as to date there have been no public sector combinations.

Authorization for issue

20. The present financial statements are certified by the Assistant Secretary-General, Controller, and approved by the Secretary-General. In accordance with financial regulation 6.2, the Secretary-General transmits these financial statements as at 31 December 2017 to the Board of Auditors by 31 March 2018. The report of the Board, together with the audited financial statements, is transmitted through the secretariat of the Commission to the Governing Council, whose Committee on Administrative Matters approves the budget and oversees the financial activities of the Commission.

Note 3
Significant accounting policies

Financial assets classification

21. The classification of financial assets depends primarily on the purpose for which the financial assets are acquired. The Commission classifies its financial assets in one of the categories shown below at initial recognition and re-evaluates the classification at each reporting date.

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in cash pools and the United Nations Staff Mutual Insurance Society against Sickness and Accident
Loans and receivables	Cash and cash equivalents and receivables

22. All financial assets are initially measured at fair value. The Commission initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date the Commission becomes party to the contractual provisions of the instrument.

23. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

24. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition, or are held for trading, or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are recorded as a variation to the investment proceeds, since any gains are neither available nor utilizable by the Commission other than for the purposes of payment of compensation awards (see note 6).

25. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest rate method. Interest revenue is recognized on a time-proportion basis using the effective interest rate method on the respective financial asset.

26. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized against the statement of financial performance in the year in which they arise. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Commission has transferred substantially all risks and rewards of the financial asset.

27. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Investment in cash pools

28. The United Nations Treasury invests funds pooled from the Secretariat and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

29. The Commission's investment in the main cash pool is included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on the maturity period of the investments.

Cash and cash equivalents

30. Cash and cash equivalents comprise cash at bank and on hand and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Receivables

31. Receivables comprise amounts receivable for goods or services provided to other entities, receivables from other United Nations reporting entities and receivables from staff. Other receivables that are considered material are subject to specific review and an allowance for doubtful receivables assessed on the basis of recoverability and ageing accordingly.

Other assets

32. Other assets include education grant advances and prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Financial liabilities: classification

33. Financial liabilities classified as "other financial liabilities" are initially recognized at fair value and subsequently measured at amortized cost. They include accounts payable, transfer payables, unspent funds held for future refunds and other liabilities such as balances payable to other United Nations reporting entities that reflect transactions between funds, and include the amounts due to the United Nations General Fund. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The Commission re-evaluates classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued liabilities

34. Accounts payable and accrued liabilities arise from the purchase of goods and services that have been received but not paid for as at the reporting date. They are stated at invoiced amounts, less payment discounts at the reporting date. Payables are recognized and subsequently measured at their nominal value, as they are generally due within 12 months.

Financial liabilities: compensation awards

35. A percentage of the proceeds from Iraqi oil sales is deposited into the Compensation Fund pursuant to Security Council resolutions 1483 (2003) and 1956 (2010) and is used to pay compensation to successful claimants. The United Nations, through the Compensation Commission, is considered to be an agent responsible solely for the administration of the Fund (see para. 79 below). As such, oil proceeds received are used solely for the purpose of payment of compensation awards and therefore do not meet revenue recognition criteria. Similarly, main pool investment proceeds are applied solely towards successful claims and do not meet revenue recognition criteria. Accordingly, the Commission recognizes an accounts payable balance for the total amount of oil proceeds deposited and investment proceeds less any revenue drawn from the Compensation Fund for the administrative cost of the Commission.

Operating leases: the Commission as "lessee"

36. The Commission occupies premises and uses equipment through lease agreements. Leases where all of the risks and rewards of ownership are not substantially transferred to the Commission are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Employee benefits

37. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. Employee benefits are classified as short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

38. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave and maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave) provided to current employees on the basis of services rendered. All such benefits that are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

39. Post-employment benefits comprise after-service health insurance, end of service repatriation benefits and annual leave, which are accounted for as defined benefit plans in addition to the United Nations Joint Staff Pension Fund.

Defined benefit plans

40. The following benefits are accounted for as defined benefit plans: after-service health insurance, repatriation benefits (post-employment benefits) and accumulated annual leave that is commuted to cash upon separation from the Organization (other long-term benefits). Defined benefit plans are those for which the Commission's obligation is to provide agreed benefits, and therefore the Commission bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The Organization has chosen to recognize changes in the liability for defined-benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the end of the reporting year, the Commission held no plan assets as defined by IPSAS 25: Employee benefits.

41. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

42. *After-service health insurance*. After-service health insurance provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to that date. The after-service health insurance liability represents the present value of the share of the Commission's medical insurance costs for retirees and the post retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is considering contributions by all plan participants in determining the Commission's residual liability. Contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the Commission's residual liability in accordance with cost-sharing ratios authorized by the General Assembly.

43. *Repatriation benefits*. Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to repatriation grant, which is based upon length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the Commission and is measured as the present value of the estimated liability for settling these entitlements.

44. *Annual leave*. The liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the Commission. The Commission recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities, whereby staff members access current period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at end of service as the true liability of the Commission. The accumulated annual leave benefit reflecting the outflow of economic resources from the Commission at end of service is therefore classified under the category of other long-term benefits, it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly to post-employment benefits; therefore, the Commission values its accumulated annual leave benefit liability as a defined, post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

45. The Commission is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

46. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The Commission and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Commission's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the Commission has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The Commission's contributions to the Pension Fund during the financial period are recognized as expenses in the statement of financial performance.

Termination benefits

47. Termination benefits are recognized as an expense only when the Commission is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

48. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service. Accumulated annual leave is an example of long-term employee benefits.

Provisions

49. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Commission has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation.

Contingent liabilities

50. Any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission are disclosed as contingent liabilities. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

Contingent assets

51. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more

uncertain future events not wholly within the effective control of the Commission. Contingent assets are disclosed in the notes when it is more likely than not that economic benefits will flow to the Commission.

Commitments

52. Commitments are future expenses to be incurred by the Commission on contracts entered into by the reporting date and that the Commission has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to the Commission in future years, non-cancellable minimum lease payments and other non-cancellable commitments.

Investment revenue

53. Investment proceeds include the Commission's share of net main cash pool revenue and other interest revenue. The net main cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sales proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue and the net revenue is distributed proportionately to all participants based on their average daily balances. The main cash pool income also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of their end-of-year balances. Investment revenue is considered related to the Compensation Fund liability and recognized as accounts payable.

Expenses

54. Expenses are decreases in economic benefits or service potential during the reporting year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered regardless of the terms of payment.

55. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, assignment, repatriation and other allowances. Operating expenses are office rental costs and other immaterial expenses.

Note 4
Financial instruments

Table 1
Financial instruments
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Financial assets		
Fair value through surplus or deficit		
Short-term investments — main cash pool	18 466	13 287
Total short-term fair value through surplus or deficit	**18 466**	**13 287**

	31 December 2017	*31 December 2016*
Long-term investments — main cash pool	5 796	6 398
Subtotal long-term fair value through surplus or deficit	**5 796**	**6 398**
Total fair value through surplus or deficit	**24 262**	**19 685**
Loans and receivables		
Cash and cash equivalents — main cash pool	2 074	7 505
Subtotal cash and cash equivalents	**2 074**	**7 505**
Receivables from other United Nations entities	–	60
Subtotal accounts receivable	**–**	**60**
Total loans and receivables	**2 074**	**7 565**
Total carrying amount of financial assets	**26 336**	**27 250**
Of which relates to financial assets held in main cash pool	26 336	27 190
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities — accounts payable	12	22
Subtotal accounts payable and accrued liabilities	**12**	**22**
Accounts payable — compensation awards/Government of Iraq (note 6)	12 038	13 138
Total carrying amount of financial liabilities	**12 050**	**13 160**

Note 5
Financial risk management and the main cash pool

Main cash pool

56. In addition to directly held cash and cash equivalents and investments, the United Nations Compensation Commission participates in the United Nations Treasury main pool. The main pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

57. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term and long-term investments) and revenue is based on each participating entity's principal balance.

58. As at 31 December 2017, the Commission participated in the main pool, which held total assets of $8,086.5 million (2016: $9,033.6 million), of which $26.3 million was due to the Commission (2016: $27.2 million), and its share of revenue from the main pool was $0.3 million (2016: $0.2 million).

Table 2
Summary of assets and liabilities of the main pool as at 31 December 2017
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Fair value through surplus or deficit		
Short-term investments	5 645 952	4 389 616
Long-term investments	1 779 739	2 125 718
Total fair value through surplus or deficit investments	**7 425 691**	**6 515 334**
Loans and receivables		
Cash and cash equivalents	636 711	2 493 332
Accrued investment income	24 098	24 961
Total loans and receivables	**660 809**	**2 518 293**
Total carrying amount of financial assets	**8 086 500**	**9 033 627**
Cash pool liabilities		
Payable to the Compensation Commission	26 336	27 190
Payable to other cash pool participants	8 060 164	9 006 437
Total liabilities	**8 086 500**	**9 033 627**
Net assets	–	–

Table 3
Summary of net revenue and expenses of the main pool for the year ended 31 December 2017
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Investment revenue	104 576	73 903
Unrealized gains/(losses)	874	(13 474)
Investment revenue from main pool	**105 450**	**60 429**
Foreign exchange gains/(losses)	7 824	(5 105)
Bank fees	(853)	(646)
Operating expenses from main pool	**6 971**	**(5 751)**
Net revenue and expenses from main pool	**112 421**	**54 678**

Financial risk management

59. The United Nations Treasury is responsible for investment and risk management for the main pool, including conducting investment activities in accordance with the United Nations Investment Management Guidelines.

60. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market-rate-of-return component of the objectives.

61. An investment committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

62. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible main pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main pool does not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

63. The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

64. The credit ratings used for the main pool are those determined by major credit-rating agencies. Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. The year-end credit ratings are shown in table 4.

Table 4
Investments of the cash pool by credit ratings as at 31 December 2017
(Percentage)

Main pool	*Ratings as at 31 December 2017*				*Ratings as at 31 December 2016*			
Bonds (long-term ratings)								
	AAA	*AA+/AA/AA-*	*A+*	*NR*	*AAA*	*AA+/AA/AA-*	*BBB*	*NR*
S&P	30.5	65.5	4.0	–	33.6	55.1	5.6	5.7
Fitch	61.3	30.6	–	8.1	62.4	28.3		9.3
	Aaa	*Aa1/Aa2/Aa3*			*Aaa*	*Aa1/Aa2/Aa3*		
Moody's	55.3	44.7			50.3	49.7		
Commercial papers (short-term ratings)								
	A-1+/A-1				*A-1*			
S&P	100.0				100.0			
	F1				*F1*			
Fitch	100.0				100.0			
	P-1				*P-1*			
Moody's	100.0				100.0			
Reverse repurchase agreement (short-term ratings)								
	A-1+				*A-1+*			
S&P	100.0				100.0			
	F1+				*F1+*			
Fitch	100.0				100.0			
	P-1				*P-1*			
Moody's	100.0				100.0			

Main pool	*Ratings as at 31 December 2017*			*Ratings as at 31 December 2016*		
Term deposits (Fitch viability ratings)						
	aaa	*aa/aa-*	*a+/a/a-*	*Aaa*	*aa/aa-*	*a+/a*
Fitch	–	44.2	55.8	–	48.1	51.9

Abbreviation: NR, not rated.

65. The United Nations Treasury actively monitors credit ratings and, because the Organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for impaired investments.

Financial risk management: liquidity risk

66. The main pool is exposed to liquidity risk associated with requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within a day's notice to support operational requirements. The main pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

67. The main pool comprises the Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than four years (2016: five years). The average duration of the main pool was 0.61 years (2016: 0.71 years), which is considered to be an indicator of low risk.

Main cash pool interest rate risk sensitivity analysis

68. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. As the investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown in table 5 (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 5
Main pool interest rate risk sensitivity analysis as at 31 December 2017
(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
Main pool total	**95.47**	**71.60**	**47.73**	**23.86**	**–**	**(23.86)**	**(47.72)**	**(71.57)**	**(95.42)**

Main pool interest rate risk sensitivity analysis as at 31 December 2016
(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Main pool total	**124.35**	**93.26**	**62.17**	**31.08**	**–**	**(31.08)**	**(62.14)**	**(93.21)**	**(124.27)**

Other market price risk

69. The main pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value

70. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

Fair value hierarchy

71. Table 6 presents financial instruments carried at fair value, by fair value hierarchy levels. The levels are defined as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

72. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian on the basis of valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held in the main pool is the current bid price.

73. The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques that maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

74. The fair value hierarchy in table 6 presents the main pool assets that are measured at fair value at the reporting date. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Table 6
Fair value hierarchy for investments as at 31 December: main pool
(Thousands of United States dollars)

	31 December 2017			*31 December 2016*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporates	355 262	–	355 262	697 676	–	697 676

	31 December 2017			31 December 2016		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Bonds — non-United States agencies	1 190 050	–	1 190 050	1 903 557	–	1 903 557
Bonds — non-United States sovereigns	124 892	–	124 892	124 854	–	124 854
Bonds — supranationals	173 275	–	173 275	213 224	–	213 224
Bonds — United States treasuries	610 267	–	610 267	586 739	–	586 739
Main pool — commercial papers	671 945	–	671 945	149 284	–	149 284
Main pool — term deposits	–	4 300 000	4 300 000	–	2 840 000	2 840 000
Total main pool	**3 125 691**	**4 300 000**	**7 425 691**	**3 675 334**	**2 840 000**	**6 515 334**

Note 6
Accounts payable: compensation awards

Background

75. Funds to pay successful awards are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. This percentage has changed over the years and, under the terms of Security Council resolution 1483 (2003), was set at 5 per cent. Council resolution 1956 (2010) also provided for 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund. These requirements are binding on the Government of Iraq, unless the Government of Iraq and the Governing Council of the Compensation Commission decide otherwise.

76. In exercising its authority over the arrangements for ensuring that payments are made to the Compensation Fund, the Governing Council continues to monitor the deposit of revenues to the Fund.

Decisions 272 (2014), 273 (2015), 274 (2016), 275 (2017) and 276 (2017)

77. Owing to the extraordinarily difficult security circumstances in Iraq and the unusual budgetary challenges associated with confronting this issue, the Governing Council has adopted three decisions, 272 (2014), 273 (2015) and 274 (2016), in which it effectively postponed, from 2015 through 2017, Iraq's obligation to deposit 5 per cent of oil proceeds and 5 per cent of the value of any non-monetary payments to service providers into the Compensation Fund. Under decision 274 (2016), deposits to the Compensation Fund were to resume on 1 January 2018.

78. Over the course of 2017, the Council considered options for ensuring the resolution of the $4.6 billion in outstanding compensation that remains to be paid. On 3 October 2017, the Governing Council adopted decision 275 (2017), in which it called upon the Governments of Iraq and Kuwait to present options for the Council's consideration that would ensure the final payment of compensation towards the outstanding award by the end of 2021. The Governing Council held a special session on 21 November 2017 to continue its consideration of options to ensure the resolution of the $4.6 billion that remains to be paid and adopted decision 276 (2017). This decision provides for 0.5 per cent of proceeds from export sales of petroleum, petroleum products and natural gas and of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund from 1 January 2018 to 31 December 2018, for 1.5 per cent of such proceeds to be deposited into the Compensation Fund from 1 January 2019 to 31 December 2019, and for 3 per cent of such proceeds to be deposited into the Compensation Fund from 1 January 2020 until such time as the

outstanding compensation award has been paid in full. Decision 276 (2017) also provides for payments of compensation towards the outstanding award to resume in 2018 in accordance with the payment mechanism set out in decision 267 (2009).

Accounting for the oil proceeds

79. With the transition from the United Nations system accounting standards to IPSAS, other than any agreed proportion retained to fund the administration of the Compensation Commission, oil revenue received is no longer reflected as income on the Commission's financial statements. Under IPSAS, the obligation to pay the outstanding award rests with the Government of Iraq, not with the United Nations. The United Nations, through the Commission, is considered to be acting as an "agent", responsible solely for the administration of the Compensation Fund. Oil proceeds received from Iraq and deposited into the Fund are now recorded as cash, that is, an "asset", with a corresponding offset accounts payable, that is, a "liability", in favour of the outstanding claim.

80. Table 7 shows the movements in 2017. Investment proceeds accrued are an increase in the liability but are not available for disbursement until the associated cash is received.

Table 7
Accounts payable: compensation awards
(Thousands of United States dollars)

Movement in the accounts payable: Compensation Fund	
Liability at 31 December 2016	**13 138**
Unrealized loss on investment reversal	83
Subtotal: gross liability as at 1 January	**13 221**
2017 administrative budget	(1 437)
Gross investment proceeds	340
Subtotal: gross liability	**12 124**
Unrealized loss on investment	(86)
Total liability at 31 December 2017	**12 038**

81. Pursuant to Governing Council decision 267 (2009), payments would normally be made on a quarterly basis utilizing all available funds in the Compensation Fund, rounding down to the nearest $10 million. As with the proceeds from oil sales under IPSAS, payments are no longer reflected as an "expenditure" of the Commission and are now reflected as a direct reduction in the liability recorded to offset the cash deposits.

Compensation awards approved but not yet paid as at year-end

82. As at 31 December 2017, compensation awards approved by the Governing Council of the Commission but not yet paid pending receipt of deposits from the proceeds of oil export sales further to Security Council resolutions 1483 (2003) and 1956 (2010) stood at approximately $4,629 million (2016: $4,629 million).

83. Pursuant to Governing Council decision 274 (2016), there were no payments of compensation awards in 2017. With the adoption of Council decision 276 (2017),

payments of compensation awards will resume in 2018 in accordance with the mechanism set out in decision 267 (2009).

Note 7
Employee benefits liabilities

Table 8
Employee benefits liabilities
(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2017*
After-service health insurance	111	5 797	5 908
Annual leave	1	28	29
Repatriation benefits	14	76	90
Subtotal defined benefit liabilities	**126**	**5 901**	**6 027**
Termination benefits	–	186	186
Other employee benefits	8	–	8
Total employee benefits liabilities	**134**	**6 087**	**6 221**

	Current	*Non-current*	*Total as at 31 December 2016*
After-service health insurance	105	5 799	5 904
Annual leave	4	37	41
Repatriation benefits	33	113	146
Subtotal defined benefit liabilities	**142**	**5 949**	**6 091**
Termination benefits	–	204	204
Other employee benefits	10	–	10
Total employee benefits liabilities	**152**	**6 153**	**6 305**

84. Other employee benefits consist of home leave allowance accrued benefit as well as accrued settlement of employee taxes.

85. The liabilities arising from post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations of the United Nations and Staff Rules. Actuarial valuation is usually undertaken every two years, with the most recent being on 31 December 2017.

Actuarial valuation: assumptions

86. The Commission reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations at year-end are set out in table 9.

Table 9
Actuarial assumptions used to determine employee benefits obligations

Actuarial assumptions	*After-service health insurance (percentage)*	*Repatriation benefits (percentage)*	*Annual leave (percentage)*
Discount rates: 31 December 2016 valuation	0.70	2.47	3.63
Discount rates: 31 December 2017 valuation	0.64	2.64	3.62
Inflation: 31 December 2016 valuation	4-6.00	2.25	–
Inflation: 31 December 2017 valuation	4-5.70	2.20	–

87. For the 2017 actuarial valuations, the yield curves used in the calculation of the discount rates in respect of the United States dollar, the euro and the Swiss franc are those developed by Aon Hewitt and detailed in the actuarial report. This is consistent with the decision of the Task Force on Accounting Standards established by the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, taken in the context of the harmonization of actuarial assumptions across the United Nations system and the recommendation of the Advisory Committee on Administrative and Budgetary Questions (see A/71/815, para. 26) endorsed by the General Assembly in section IV of its resolution 71/272 B. The discount rates reflected in the 2016 after-service liability valuations were based on a weighted blend of per-currency discount rates, themselves calculated on the basis of United States dollar, euro and Swiss franc cash flows. The discount rate for each of the three currencies was derived from a different yield curve: the Citigroup pension discount curve for the United States dollar, the Ernst & Young eurozone corporate yield curve for the euro; and the Federation bonds yield curve, plus the spread observed between government rates and high-grade corporate bonds rates, for the Swiss franc.

88. As at 31 December 2017, the salary increase assumptions for the Professional staff category were 8.5 per cent for the age of 23, grading down to 4.0 per cent for the age of 70. The assumptions for the General Service staff category were 6.8 per cent for the age of 19, grading down to 4.0 per cent for the age of 65.

89. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption reflects the current short-term expectations of the after-service health insurance plan cost increases and the economic environment. Medical cost trend rate assumptions that were used for the valuation as at 31 December 2017 reflected the current short-term expectations of the after-service health insurance plan cost increases and the economic environment through a benchmark of market expectations. As at 31 December 2017, these escalation rates were health-care yearly escalation rate of 4.0 per cent (2016: 4.0 per cent) for non-United States medical plans, health-care escalation rates of 5.7 per cent (2016: 6.0 per cent) for all other medical plans, except 5.5 per cent (2016: 5.7 per cent) for the United States Medicare plan and 4.8 per cent (2016: 4.9 per cent) for the United States dental plan), grading down to 3.65 per cent over four years for eurozone medical plans and to 3.05 per cent over nine years for Swiss medical plans.

90. With regard to the valuation of repatriation benefits as at 31 December 2017, inflation in travel costs was assumed to be 2.20 per cent (2016: 2.25 per cent), on the basis of the projected United States inflation rate over the next 20 years. The assumption for 2016 was over 10 years.

91. Annual leave balances were assumed to increase at the following annual rates during the staff members' projected years of service: 1 to 3 years — 9.1 per cent; 4 to

8 years — 1.0 per cent; 9 years and over — 0.1 per cent. The attribution method continues to be used for annual leave actuarial valuation.

92. Assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

Movement in employee benefits liabilities accounted for as defined benefit plans

Table 10
Movement in employee benefits liabilities accounted for as defined benefit plans
(Thousands of United States dollars)

	2017	*2016*
Net defined benefit liability as at 1 January	**6 091**	**6 422**
Current service cost	85	89
Interest cost	45	32
Total net costs recognized in the statement of financial performance	**130**	**121**
Benefits paid	(144)	(113)
Actuarial (gains)/losses recognized directly in the statement of changes in net assets	(50)	(339)
Net defined benefit liability as at 31 December	**6 027**	**6 091**

93. The total amount of current service and interest costs recognized in the statement of financial performance was $0.130 million.

Discount rate sensitivity analysis

94. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bonds markets varied over the reporting year, and volatility impacts the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown in table 11.

Table 11
Discount rate sensitivity to end-of-year employee benefits liabilities
(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
For the year ended 31 December 2017			
Increase of discount rate by 1 per cent	(274)	(3)	(3)
As a percentage of end-of-year liability	(5%)	(4%)	(10%)
Decrease of discount rate by 1 per cent	294	3	4
As a percentage of end-of-year liability	5%	3%	14%

	After-service health insurance	*Repatriation benefits*	*Annual leave*
For the year ended 31 December 2016			
Increase of discount rate by 1 per cent	(299)	(6)	(4)
As a percentage of end-of-year liability	(5%)	(4%)	(10%)
Decrease of discount rate by 1 per cent	321	6	4
As a percentage of end-of-year liability	5%	4%	10%

Medical costs sensitivity analysis

95. The principal assumption in the valuation of the after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability owing to changes in medical cost rates while holding other assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, the impact on the measurement of the defined benefit obligations would be as shown in table 12.

Table 12
Effect of a 1 per cent movement in assumed medical cost trend rates
(Thousands of United States dollars)

	Increase	*Decrease*
1 per cent movement in the assumed medical costs trend rates: 31 December 2017		
Effect on the defined benefit obligation	1 293	(1 003)
Effect on the aggregate of the current service cost and interest cost	24	(17)
1 per cent movement in the assumed medical costs trend rates: 31 December 2016		
Effect on the defined benefit obligation	1 409	(1 075)
Effect on the aggregate of the current service cost and interest cost	31	(23)

Other defined-benefits plan information

96. Benefits paid for 2017 are estimates of what would have been paid to separating staff and/or retirees during the year on the basis of the pattern of rights acquisition under each scheme: after-service health insurance, repatriation and commutation of accrued annual leave. The estimated defined-benefits payments (net of participants' contributions in these schemes) are shown in the table below.

Estimated defined benefits payments, net of participants' contributions
(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
2018	112	14	1	127
2017	105	34	5	144

Historical information

Table 13
Liabilities for after-service health insurance, repatriation and annual leave, 2012–2017

(Thousands of United States dollars)

	2012	*2013*	*2014*	*2015*	*2016*	*2017*
Present value of the defined benefit obligations	5 875	6 461	8 298	6 422	6 091	6 027

Accrued salaries and allowances

97. Accrued salaries and allowances are immaterial.

United Nations Joint Staff Pension Fund

98. The Regulations of the Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

99. The Commission's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

100. During 2017, the Pension Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. As a result, as an exception to the normal biennial cycle, the Pension Fund decided to roll forward the participation data as at 31 December 2013 to 31 December 2016, for use in its 2016 financial statements. An actuarial valuation as of 31 December 2017 is currently being performed.

101. The rolling forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

102. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of preparation of the present report, the General Assembly has not invoked the provision of article 26.

103. In 2017, the Compensation Commission's contributions paid to the Pension Fund amounted to $0.085 million (2016: $0.097 million).

104. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed on the Fund's website at www.unjspf.org.

Impact of General Assembly resolutions on staff benefits

105. On 23 December 2015, the General Assembly adopted resolution 70/244, in which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes affect the calculation of other long-term and end-of-service employee benefits liabilities. In addition, a revised education grant scheme has been implemented that affects the computation of this short-term benefit. The impact of these changes is explained below.

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65 and for those who joined before 1 January 2014 is 60 or 62. The General Assembly decided to extend the mandatory age of separation for staff recruited before 1 January 2014 by organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. This change has been implemented as of 1 January 2018 and affects future calculations of employee benefits liabilities.
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service) as at 31 December 2016 were based on single or dependency rates. Those rates affected staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale that resulted in the elimination of single and dependency rates as from 1 January 2017 and was implemented in September 2017. The dependency rate was replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations of the United Nations and Staff Rules. A revised staff assessment scale and pensionable remuneration scale was implemented along with the unified salary structure. The implementation of the unified salary scale was not designed to result in reduced payments for staff members. However, it is expected that the unified salary scale will affect the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. This change in eligibility criteria has already been implemented effective January 2017 in September 2017 and is expected to affect future calculations of employee benefits liabilities.

Change	*Details*
Education grant	With effect from the school year in progress on 1 January 2018, the computation of the education grant given to eligible staff members utilizes a global sliding scale that is set in a single currency (United States dollar) with the same maximum amount of the grant for all countries. In addition, there are changes to the boarding assistance and education grant travel provided by the Organization under the revised education grant scheme. The affects will be seen at the end of the 2017/18 school year and at the time of settlements.

106. The impact of these changes, other than the education grant, has been fully reflected in the actuarial valuation conducted in 2017.

Termination benefits

107. Some staff members are entitled to a termination indemnity should the Commission terminate their appointments. The Commission's accrued liability for these costs at year-end was $0.186 million (2016: $0.204 million).

Note 8
Net assets

108. Net assets and reserves represent the residual interest in the assets of the Commission after deducting all its liabilities. The financial statements reflect the aggregation of two funds: the Compensation Fund and the Follow-up Programme for Environmental Awards.

Operating reserve

109. An operating reserve was established by the Governing Council to finance the Commission's administrative expenses, and this reserve is set aside within the Compensation Fund.

110. A separate operating reserve exists for the Follow-up Programme for Environmental Awards that represents a small amount of residual interest earned on the funds in the Follow-up Programme. This small reserve ($0.017 million) will be retained until closing for the orderly winding-up of the Commission and to cover any post-closure costs associated with the Programme.

Note 9
Revenue

Amount charged for administration of claims

111. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. At its thirty-fifth meeting, held in November 2016, the Committee on Administrative Matters of the Governing Council directed that the administrative budget for 2017 be drawn from the Compensation Fund rather than from the operating reserve, in order to ensure that the reserve retains a sufficient level for the orderly winding-up of the Commission and to cover any post-closure costs.

112. For the Follow-up Programme for Environmental Awards, revenue consists of interest and investment income on the balance of cash in the Programme fund.

113. As a result of the budget being deducted from the Compensation Fund, statement II, statement of financial performance, shows a surplus for the year, which is incorporated into the operating reserve in statement I, statement of financial position.

Note 10
Expenses

Table 14
Expenses for the year
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Salaries and wages	531	623
Pension and insurance benefits	196	214
Other benefits	(46)	29
Total employee salaries, allowances and benefits	**681**	**866**
Consultants and contractors	46	37
Total contractual services	**46**	**37**
Travel	1	16
Total travel	**1**	**16**
Contracted services	401	303
Rent — offices and premises	74	74
Other/miscellaneous operating expenses	15	37
Total other operating expenses	**490**	**414**
Total	**1 218**	**1 333**

114. Salaries and wages include international, General Service and temporary staff salaries, post adjustments and staff assessments. Other benefits include repatriation grant, leave benefits and termination costs.

115. Contractual services expenses include non-employee compensation, allowances and travel.

116. Travel expenses include all staff and non-staff travel that is not considered to be an employee or contractual allowance or benefit.

117. Other operating expenses comprise primarily conferencing, information technology and administrative services of the United Nations Office at Geneva; the rental charge for the Commission's office space at the United Nations Office at Geneva, which includes maintenance, utilities and security services costs; and the costs associated with the audit by the Board of Auditors.

Note 11
Segment reporting

118. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. Segment reporting information is provided on the basis of two segments.

119. The Compensation Fund segment contains the Compensation Fund and related activities of the Commission's secretariat, which include the payment of compensation awards, addressing issues concerning the level of Iraq's contribution and arrangements for ensuring that payments continue to be deposited into the Compensation Fund, servicing of the Governing Council, financial and general administrative activities of the secretariat and audit matters. In addition, as the Commission is nearing the conclusion of its mandate, the secretariat focused its efforts on liquidation-related activities to ensure the orderly wind-down of the Commission.

120. With the mandate of the Follow-up Programme for Environmental Awards having been declared fulfilled by the Governing Council in late 2013, the Programme segment focuses on winding-down activities and audit matters as they pertain to the Programme.

121. The segment statements of financial position and financial performance are given in tables 15 and 16.

Table 15
Segment statements of financial position as at 31 December 2017

(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Assets			
Current assets			
Cash and cash equivalents	2 073	1	2 074
Investments	18 454	12	18 466
Deferred expenditure	15	–	15
Total current assets	**20 542**	**13**	**20 555**
Investments	5 792	4	5 796
Total non-current assets	**5 792**	**4**	**5 796**
Total assets	**26 334**	**17**	**26 351**
Liabilities			
Current liabilities			
Accounts payable: compensation awards/ environmental awards	12 038	–	12 038
Accounts payable	12	–	12
Employee benefits	134	–	134
Total current liabilities	**12 184**	**–**	**12 184**
Non-current liabilities			
Employee benefits	6 087	–	6 087
Total non-current liabilities	**6 087**	**–**	**6 087**
Total liabilities	**18 271**	**–**	**18 271**
Net of total assets and total liabilities	**8 063**	**17**	**8 080**

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Net assets			
Operating reserve	8 063	17	8 080
Net assets	**8 063**	**17**	**8 080**

Table 16
Segment statements of financial performance for the year ended 31 December 2017
(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Revenue			
Revenue	1 462	–	1 462
Total revenue	**1 462**	**–**	**1 462**
Expenses			
Employee salaries, allowances and benefits	681	–	681
Contractual services	46	–	46
Travel	1	–	1
Other operating expenses	490	–	490
Total expenses	**1 218**	**–**	**1 218**
Surplus for the year	**244**	**–**	**244**

Note 12
Related parties

Key management personnel

122. Key management personnel are those with the ability to exercise significant influence over financial and operating decisions. The head of the Commission's secretariat, the Executive Head, serves as the representative of the Secretary-General and has the authority and responsibility for planning, directing and controlling activities.

123. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, such entitlements as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel are ordinary members of the Pension Fund and qualify for post-employment benefits at the same level as other employees. These benefits, payable on separation, cannot be reliably quantified as they depend on the years of service and actual separation date.

124. The Commission had one staff member in the key management personnel category, with a total remuneration of $0.28 million over the financial year; such payments are in accordance with the Staff Regulations of the United Nations and Staff Rules, the published salary scales of the United Nations and other publicly available documents. As at the reporting date, there were no advances or loans issued to key management personnel other than those commonly available to all staff members.

During the year, the Commission paid no remuneration or other benefits, such as consulting or service fees, to close family members of key management personnel.

Related party disclosures

125. Except where otherwise stated in the present statements, all transactions made with third parties, including United Nations organizations, occur within a normal supplier or client/recipient relationship or at arm's-length terms and conditions. Transactions with the United Nations entities comprise those shown in table 17.

Table 17
Transactions with third parties
(Thousands of United States dollars)

	Note	31 December 2017	31 December 2016
United Nations Office at Geneva			
Information technology and administrative services		128	119
Conference services		197	65
Charges in relation to after-service health insurance		78	79
Rental	13	73	73
Total United Nations Office at Geneva		**477**	**336**
Office of Internal Oversight Services		10	–
United Nations Headquarters services		–	55
Total United Nations Offices at Geneva and Headquarters		**487**	**391**

Note 13
Operating leases and commitments

126. The Commission has entered into an operating lease arrangement with the United Nations Office at Geneva for the use of offices in Villa la Pelouse as its premises. The total lease payments recognized in expenditure for the year were $0.073 million (2016: $0.073 million). The arrangement has a six-month early termination clause term and the future minimum lease payments for this six-month period are $0.04 million (2016: $0.04 million).

127. As at the reporting date, there were no contractual commitments for goods and services contracted but not delivered.

Note 14
Contingent liabilities and contingent assets

128. In the normal course of operations, the Commission may be subject to claims that can be categorized as corporate and commercial; administrative law; and other. As at the reporting date, the Commission had neither contingent liabilities nor assets.

Note 15
Events after the reporting date

129. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date on which the financial statements were authorized for issue that would have had a material impact on these statements.

130. It should be noted that, as provided for in decision 276 (2017), deposits of 0.5 per cent of the proceeds from export sales of petroleum, petroleum products and natural gas and of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers resumed in January 2018.

United Nations S/2018/568

Security Council

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24 July 2018

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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the audit of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 30 June 2017.

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Letters of transmittal

Letter dated 30 September 2017 from the Secretary-General addressed to the Chair of the Board of Auditors

In accordance with financial regulation 6.2, I have the honour to submit the financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 1 January to 30 June 2017, which I hereby approve.

The financial statements have been completed and certified by the Controller as correct in all material respects.

(*Signed*) António **Guterres**

Letter dated 24 July 2018 from the Chair of the Board of Auditors addressed to the President of the Security Council

I have the honour to transmit to you the report of the Board of Auditors on the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 30 June 2017.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Report of the Board of Auditors on the audit of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 30 June 2017

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I. Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), which comprise the statement of financial position (statement I) as at 30 June 2017 and the statement of financial performance (statement II), the statement of changes in net assets (statement III) and the statement of cash flows (statement IV) for the period from 1 January to 30 June 2017, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the United Nations escrow account as at 30 June 2017 and its financial performance and cash flows for the period from 1 January to 30 June 2017, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the United Nations escrow account, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter: liquidation

We draw attention to paragraphs 12, 13, 14 and 15 of the notes to the financial statements, which indicate that the financial statements of the escrow account have been prepared using the liquidation basis of accounting, as the escrow account had been terminated as at 30 June 2017. Our opinion is not modified in respect of this matter.

Information other than the financial statements and the auditor's report thereon

The Secretary-General is responsible for the other information, which comprises the financial report for the period from 1 January to 30 June 2017 but does not include the financial statements and our auditor's report thereon. The United Nations escrow account has not prepared a financial report for the period from 1 January to 30 June 2017.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

Responsibilities of management and those charged with governance for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as the Secretary-General determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary-General is responsible for assessing the ability of the United Nations escrow account to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless the Secretary-General intends either to liquidate the United Nations escrow account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the United Nations escrow account.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the United Nations escrow account.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary-General.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations escrow account that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also examined the management issues and concluded that there are no material issues to draw to the attention of the Security Council. Therefore, we did not issue a long-form audit report.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General
of the United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

II. Certification of the financial statements

Letter dated 30 September 2017 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 1 January to 30 June 2017 have been prepared in accordance with financial rule 106.1.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information on, and clarification of, the financial activities related to Security Council resolution 1958 (2010) undertaken by the Organization during the period covered by the statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), numbered I to IV, are correct in all material respects.

(*Signed*) Bettina Tucci **Bartsiotas**

III. Financial statements

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

I. Statement of financial position as at 30 June 2017

(Thousands of United States dollars)

	Note	*30 June 2017*	*31 December 2016*
Assets			
Current assets			
Cash and cash equivalents	5	21 002	42 071
Investments	5, 6	132 098	110 355
Other assets	7	6	67
Total current assets		**153 106**	**152 493**
Non-current assets		–	–
Total assets		**153 106**	**152 493**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5, 8	136 567	21
Employee benefits liabilities	9	592	510
Total liabilities		**137 159**	**531**
Liquidation reserve	10	171	–
Net of total assets, total liabilities and liquidation reserve		**15 776**	**151 962**
Net assets			
Accumulated surpluses	11	15 776	151 962
Total net assets		**15 776**	**151 962**

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

II. Statement of financial performance for the period from 1 January to 30 June 2017

(Thousands of United States dollars)

	Note	*2017*	*2016[a]*
Revenue			
Investment revenue	5	949	1 081
Other revenue		43	–
Total revenue		**992**	**1 081**
Expenses			
Employee salaries, allowances and benefits		531	612
Other operating expenses		60	45
Transfer to the Government of Iraq	8	136 525	–
Total expenses	12	**137 116**	**657**
Surplus/(deficit) for the year		**(136 124)**	**424**

[a] From 1 January to 31 December 2016.

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

III. Statement of changes in net assets for the period from 1 January to 30 June 2017

(Thousands of United States dollars)

	Note	*Total*
Net assets as at 1 January 2016		**151 545**
Changes in net assets		
Actuarial losses on employee benefits liabilities		(7)
Surplus for the year ended 31 December 2016		424
Net assets as at 31 December 2016		**151 962**
Changes in net assets		
Actuarial losses on employee benefits liabilities	9	(62)
Deficit for the period ended 30 June 2017		(136 124)
Net assets as at 30 June 2017		**15 776**

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

IV. Statement of cash flows for the period from 1 January to 30 June 2017

(Thousands of United States dollars)

	Note	*2017*	*2016[a]*
Cash flows from operating activities			
Surplus/(deficit) for the year		**(136 124)**	**424**
Changes in assets			
Decrease in other assets		61	–
Changes in liabilities			
Increase in accounts payable and accrued liabilities		136 546	6
Increase in employee benefits liabilities, net of actuarial losses		20	59
Provision of liquidation reserve		171	–
Investment revenue presented as investing activities		(949)	(1 081)
Net cash flows used in operating activities		**(275)**	**(592)**
Cash flows from investing activities			
Investments in/(withdrawals from) main cash pool, net		(21 743)	16 888
Investment revenue		887	1 550[b]
Unrealized gains (losses)		62	(469)[b]
Net cash flows (used in)/from investing activities		**(20 794)**	**17 969**
Net (decrease)/increase in cash and cash equivalents		**(21 069)**	**17 377**
Cash and cash equivalents — beginning of year		**42 071**	**24 694**
Cash and cash equivalents — end of year	5	**21 002**	**42 071**

[a] From 1 January to 31 December 2016.

[b] Restated to conform to the current presentation.

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

Notes to the financial statements

Note 1

Reporting entity

United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations was signed on 26 June 1945 and became effective on 24 October 1945. The primary objectives of the United Nations are as follows:

(a) The maintenance of international peace and security;

(b) The promotion of international economic and social progress and development programmes;

(c) The universal observance of human rights;

(d) The administration of international justice and law.

2. These objectives are implemented through the major organs of the United Nations, as follows:

(a) The General Assembly focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the United Nations;

(b) The Security Council is responsible for various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs, and oversee the prosecution of persons responsible for serious violations of international humanitarian law;

(c) The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems;

(d) The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations has its headquarters in New York and has major offices in Geneva, Nairobi and Vienna. Its peacekeeping and political missions, regional economic commissions, tribunals, training institutes and other centres are located throughout the world.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

4. These financial statements relate to the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010).

5. In that resolution, the Security Council requested the Secretary-General to take all actions necessary to terminate all residual activities under the oil-for-food programme. It authorized the Secretary-General to establish an escrow account and to ensure that an amount of $20.0 million was retained in the escrow account until 31 December 2016, exclusively for the expenses of the United Nations related to the

orderly termination of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and the expenses of the office of the High-level Coordinator created pursuant to Council resolution 1284 (1999).

6. In the same resolution, the Security Council authorized the Secretary-General to ensure that an amount of up to $131.0 million was retained in the escrow account for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the oil-for-food programme since its inception.

7. Furthermore, the Security Council requested that all funds remaining in the escrow account be transferred to the Government of Iraq by 31 December 2016. In its resolution 2335 (2016), the Council requested that the funds in the escrow accounts be retained until 30 June 2017, at which time all remaining funds should be transferred to the Government of Iraq, and that a final report be submitted three months after the transfer of any remaining funds.

8. The Government of Iraq agreed with all relevant aspects of resolution 1958 (2010) on 29 June 2017. Accordingly, the escrow account had been terminated as at 30 June 2017, and all remaining funds are to be transferred to the Government of Iraq.

9. The escrow account is regarded as an autonomous financial reporting entity which neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and budgetary process of each of the United Nations reporting entities, the entities are not deemed to be subject to common control for the purposes of IPSAS-compliant reporting. The escrow account has no interests in associates or joint ventures.

10. The operations of the escrow account are administered by the Secretariat at United Nations Headquarters.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

11. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with IPSAS. The accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of the financial statements. In accordance with the requirements of IPSAS, the financial statements, which present fairly the assets, liabilities, revenue and expenses of the escrow account, comprise the following:

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

(c) Statement III: statement of changes in net assets;

(d) Statement IV: statement of cash flows;

(e) A summary of significant accounting policies and other explanatory notes.

As the budget of the escrow account is not made publicly available, a comparison of budget and actual amounts is not presented.

12. As the escrow account had been terminated as at 30 June 2017 (see para. 8 above), these financial statements are the last set of financial statements of the escrow account and have been prepared for the six-month period from 1 January to 30 June 2017.

Basis of accounting

13. The financial statements of the escrow account have been prepared using a liquidation basis of accounting, as the escrow account had been terminated as at 30 June 2017. The Administration is not aware of any fact, condition or event that would hinder the orderly dissolution of the escrow account and the return of all remaining funds.

14. Taking into account the complete dissolution of the escrow account by 30 September 2017, all assets and liabilities, including the total investment in the main cash pool and the total amount of post-employment liabilities, are classified as current assets and current liabilities, respectively. The balances presented on the face of the statement of financial position are representative of fair value.

Plan of liquidation

15. All assets and liabilities as at 30 June 2017 will be settled by 30 September 2017. A liquidation reserve has been set up for the staff salary expenses and benefits liabilities incurred during the period from July to September 2017 and for the fee for the audit of these financial statements (see note 10). The remaining funds after these settlements will be returned to the Government of Iraq.

Authorization for issue

16. The financial statements are certified by the Controller and approved by the Secretary-General. In accordance with Security Council resolution 1958 (2010), the Secretary-General transmits the financial statements to the Board of Auditors. The reports of the Board of Auditors shall be transmitted to the Council, together with the audited financial statements.

Functional and presentation currency

17. The functional currency and the presentation currency of the escrow account is the United States dollar. The financial statements are expressed in thousands of United States dollars.

18. Foreign currency transactions are translated into United States dollars at the United Nations operational rates of exchange at the date of transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies (that is, currencies other than the functional currency) are translated at the United Nations year-end rates of exchange. Non-monetary foreign currency items measured at historical cost or fair value are translated at the United Nations operational rates of exchange prevailing at the date of transaction or when fair value was determined.

19. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance on a net basis.

Materiality and use of judgment and estimation

20. Materiality is central to the preparation and presentation of the escrow account's financial statements; the escrow account's materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation and offsetting. In general, an item is considered material if its

omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

21. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of certain assets, liabilities, revenues and expenses. Accounting estimates and underlying assumptions are reviewed on an ongoing basis until the date of issuance of the final financial statements, which is 30 September 2017.

Note 3
Significant accounting policies

Adoption of the liquidation basis of accounting

22. As a result of the culmination of resolution 1958 (2010), the Administration adopted the liquidation basis of accounting effective as from 30 June 2017. Under the liquidation basis of accounting, assets are measured and presented at their net realizable values, which are the amounts expected to be collected in the settlement or disposal of the assets. Liabilities are stated at their estimated settlement amounts. Estimates for future costs expected to be incurred during the liquidation period have been accrued.

Financial assets: classification

23. The escrow account classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date; the classification of financial assets depends primarily on the purpose for which the financial assets are acquired:

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in main cash pool
Loans and receivables	Cash and cash equivalents, receivables

24. All financial assets are initially measured at fair value. The escrow account initially recognizes financial assets classified as loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date on which the escrow account becomes party to the contractual provisions of the instrument.

25. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

26. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition, are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

27. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest rate method. Interest revenue is recognized

on a time proportion basis using the effective interest rate method on the respective financial asset.

28. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the escrow account has transferred substantially all risks and rewards of the financial asset.

29. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in main cash pool

30. The United Nations Treasury invests funds pooled from the Secretariat and other participating entities. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested. By virtue of the liquid nature of the overall cash pool investments, withdrawal of the Iraq escrow account's share of investment is assured.

Financial assets: cash and cash equivalents

31. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables

32. Receivables comprise amounts receivable for goods or services provided to other entities, and receivables from staff. Receivables from other United Nations reporting entities are also included in this category. Receivables are subject to specific review, and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing.

Other assets

33. Other assets are prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Financial liabilities

34. Financial liabilities are classified as "other financial liabilities" and include accounts payable and accruals. Financial liabilities so classified are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The escrow account re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

35. Other accounts payable and accrued expenses arise from the purchase of goods and services that have been received but not paid for as at the reporting date. They are stated at invoiced amounts, less payment discounts at the reporting date. Payables

are recognized and subsequently measured at their nominal value, given that they are generally due within 12 months.

Employee benefits

36. Employees comprise staff members, as described in Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101 (1) of the Charter. Employee benefits are classified as short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

37. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise regular monthly benefits (wages, salaries and allowances) and reimbursement of taxes provided to current employees on the basis of services rendered. Balances which are accrued but not paid are recognized as current liabilities in the statement of financial position.

Post-employment benefits

38. Post-employment benefits comprise after-service health insurance, end-of-service repatriation benefits and annual leave that are accounted for as defined benefit plans in addition to the pension through the United Nations Joint Staff Pension Fund.

Defined benefit plans

39. Defined benefit plans are those where the escrow account's obligation is to provide agreed benefits and therefore the escrow account bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The escrow account has elected to recognize changes in the liability for defined benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the reporting date, the escrow account did not hold any plan assets as defined by IPSAS 25: Employee benefits.

40. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

After-service health insurance

41. After-service health insurance provides worldwide coverage of necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they meet certain eligibility requirements, including 10 years of participation in a United Nations health plan for those recruited after 1 July 2007 and 5 years for those recruited prior to that date. The after-service health insurance liability represents the present value of the share of the escrow account's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is to consider the contributions of all plan participants in determining the escrow account's residual liability. Contributions from retirees are

deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the escrow account's residual liability in accordance with the cost-sharing ratios authorized by the General Assembly.

Repatriation benefits

42. Upon end of service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based on length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the escrow account and is measured as the present value of the estimated liability for settling such entitlements.

Annual leave

43. The liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the Organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff), as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities whereby staff members access current-period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose, and overall there is an increase in the level in accumulated annual leave days, pointing to the commutation of accumulated annual leave into a cash settlement at end of service as the true liability of the Organization. The accumulated annual leave benefit reflecting the outflow of economic resources from the Organization at end of service is therefore classified as "other long-term benefit", it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly as post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

44. The escrow account is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer-defined benefit plan. As specified in article 3 (b) of its regulations, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

45. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to participating organizations. The escrow account, in line with other participating organizations, is not in a position to identify its proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the escrow account has treated this plan as if it were a defined contribution plan, in line with the requirements of IPSAS 25: Employee benefits. The escrow account's

contributions to the Joint Staff Pension Fund during the financial year are recognized as employee benefit expenses in the statement of financial performance.

Termination benefits

46. Termination benefits are recognized as an expense only when the escrow account is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. No termination benefits liabilities are recognized as current staff of the escrow account will be retained in the Organization.

Other long-term employee benefits

47. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which the employee provides the related services. As the current staff are employed for three months after the reporting date, such liabilities are not applicable.

Investment revenue

48. Investment revenue is the escrow account's share of net main cash pool income and other interest incomes. The net main cash pool income includes any gains and losses on the sale of investments, which are calculated as the difference between the sale proceeds and the book value. Transaction costs that are directly attributable to the investment activities are netted against income, and the net income is distributed proportionately to all main cash pool participants on the basis of their daily balances. The main cash pool income also includes unrealized market gains and losses on securities, which is distributed proportionately to all participants on the basis of their end-of-year balances.

Expenses

49. Expenses are decreases in economic benefits or service potential during the year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered, regardless of the terms of payment.

50. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, namely, pension and insurance, assignment, repatriation, hardship and other allowances. Contractual services relate to consultancy services, and other operating expenses include any maintenance, security, rental, insurance and allowance for bad debt or write-off expenses.

Note 4
Segment reporting

51. The escrow account consists of two funds: the administration fund for the termination of residual activities of the oil-for-food programme and the indemnification reserve fund for the escrow account (see paras. 5 and 6 above).

Segment revenue, expenses, assets and liabilities

Segment statement of financial position as at 30 June 2017

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total*
Assets			
Cash and cash equivalents	2 063	18 939	21 002
Investments	12 980	119 118	132 098
Other assets	6	–	6
Total assets	**15 049**	**138 057**	**153 106**
Liabilities			
Accounts payable — other	42	136 525	136 567
Employee benefits payable	592	–	592
Total liabilities	**634**	**136 525**	**137 159**
Liquidation reserve	**171**	**–**	**171**
Net of total assets, total liabilities and liquidation reserve	**14 244**	**1 532**	**15 776**
Fund balances and reserves			
Accumulated surplus	14 244	1 532	15 776
Total net assets	**14 244**	**1 532**	**15 776**

Segment statement of financial performance for the period from 1 January to 30 June 2017

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total*
Revenue			
Interest revenue	95	854	949
Other revenue	4	39	43
Total revenue	**99**	**893**	**992**
Expenses			
Transfer to Government of Iraq	–	136 525	136 525
Employee salaries, allowances and benefits	531		531
Other operating expenses	60	–	60
Total segment expense	**591**	**136 525**	**137 116**
Surplus/(deficit) for the year	**(492)**	**(135 632)**	**(136 124)**

Segment statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total*
Assets			
Cash and cash equivalents	4 213	37 858	42 071
Investments	11 049	99 306	110 355
Other assets	67	–	67
Total assets	**15 329**	**137 164**	**152 493**
Liabilities			
Accounts payable — other	21	–	21
Employee benefits payable	510	–	510
Total liabilities	**531**	–	**531**
Net assets	**14 798**	**137 164**	**151 962**
Fund balances and reserves			
Accumulated surplus	14 798	137 164	151 962
Total fund balances and reserves	**14 798**	**137 164**	**151 962**

Segment statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total*
Revenue			
Interest revenue	112	969	1 081
Total revenue	**112**	**969**	**1 081**
Employee salaries, allowances and benefits	612	–	612
Other operating expenses	45	–	45
Total segment expense	**657**	–	**657**
Surplus/(deficit) for the year	**(545)**	**969**	**424**

Note 5
Financial instruments

(Thousands of United States dollars)

	30 June 2017	*31 December 2016*
Financial assets		
Fair value through surplus or deficit		
Investments — main cash pool	132 098	110 355
Total fair value through surplus or deficit	**132 098**	**110 355**
Cash and cash equivalents		
Cash and cash equivalents — main cash pool	21 002	42 071

	30 June 2017	*31 December 2016*
Total cash and cash equivalents	**21 002**	**42 071**
Total carrying amount of financial assets	**153 100**	**152 426**
Amount of which relates to financial assets held in main cash pool	153 100	152 426
Financial liabilities		
Other accounts payable and accrued liabilities	136 567	21
Total carrying amount of financial liabilities	**136 567**	**21**
Summary investment revenue		
Investment revenue	887	1 550[a]
Unrealized gains (losses)	62	(469)[a]
Investment revenue from main cash pool	**949**	**1 081**

[a] Restated to conform to the current presentation.

Note 6
Financial risk management and the main cash pool

52. In addition to directly held cash and cash equivalents and investments, the escrow account participates in the United Nations main cash pool. The main cash pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

53. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on the principal balance of each participating entity.

54. As at 30 June 2017, the escrow account participated in the main cash pool, which held total assets of $7,527.7 million (December 2016: $7,220.8 million), of which $153.1 million was due to the escrow account (December 2016: $152.4 million), and its share of revenue from the main cash pool from January to June 2017 was $0.9 million (January–December 2016: $1.1 million).

Summary of assets and liabilities of the main cash pool as at 30 June 2017

(Thousands of United States dollars)

	Main cash pool
Fair value through surplus or deficit	
Short-term investments	4 909 918
Long-term investments	1 559 034
Total fair value through surplus or deficit investments	**6 468 951**
Loans and receivables	
Cash and cash equivalents	1 032 659
Accrued investment revenue	26 076
Total loans and receivables	**1 058 735**
Total carrying amount of financial assets	**7 527 687**

	Main cash pool
Cash pool liabilities	
Payable to the escrow account	153 100
Payable to other cash pool participants	7 374 587
Total liabilities	**7 527 687**
Net assets	**–**

Summary of revenue and expenses of the main cash pool for the period from 1 January to 30 June 2017

(Thousands of United States dollars)

	Main cash pool
Investment revenue	50 805
Unrealized gains	7 388
Investment revenue from main cash pool	**58 193**
Foreign exchange gains	2 492
Bank fees	(405)
Operating revenue of main cash pool	**2 087**
Total revenue and expenses from main cash pool	**60 280**

Summary of assets and liabilities of the main cash pool as at 31 December 2016

(Thousands of United States dollars)

	Main cash pool
Fair value through surplus or deficit	
Short-term investments	4 389 616
Long-term investments	2 125 718
Total fair value through surplus or deficit investments	**6 515 334**
Loans and receivables	
Cash and cash equivalents	2 493 332
Accrued investment revenue	24 961
Total loans and receivables	**2 518 293**
Total carrying amount of financial assets	**9 033 627**
Cash pool liabilities	
Payable to the escrow account	152 426
Payable to other cash pool participants	8 881 201
Total liabilities	**9 033 627**
Net assets	**–**

Summary of revenue and expenses of the main cash pool for the year ended 31 December 2016

(Thousands of United States dollars)

	Main cash pool
Investment revenue	73 903
Unrealized losses	(13 474)
Investment revenue from main cash pool	**60 429**
Foreign exchange losses	(5 105)
Bank fees	(646)
Operating expenses of main cash pool	**(5 751)**
Total revenue and expenses from main cash pool	**54 678**

Financial risk management

55. The United Nations Treasury is responsible for investment and risk management of the main cash pool, including the conduct of investment activities in accordance with the United Nations Investment Management Guidelines.

56. The objectives of investment management are to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market-rate-of-return component of the objectives.

57. An Investment Committee periodically evaluates investment performance and assesses compliance with the Investment Management Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

58. The Investment Management Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible main cash pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main cash pool does not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

59. The Investment Management Guidelines require that investments not be made in issuers whose credit ratings are below specifications; they also provide for maximum concentrations with given issuers. These requirements were met at the time of investment.

60. The credit ratings used for the main cash pool are those determined by major credit-rating agencies; Standard & Poor's, Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. The credit ratings at year-end are shown in the table below.

Investments of the main pool by credit ratings as at 30 June 2017

Investment	*Ratings as at 30 June 2017*	*Ratings as at 30 June 2016*
Bonds (long-term ratings)	S&P: 30.1% AAA, 66.1% AA+/AA/AA- and 3.8% A+; Fitch: 65.8% AAA, 26.6% AA+/AA/AA- and 7.6% A+; Moody's: 52.6% Aaa and 47.4% Aa1/Aa2/Aa3	S&P: 41.4% AAA, 41.3% AA+/AA/AA- and 17.3% not rated by S&P; Fitch: 48.2% AAA, 41.4% AA+/AA/AA- and 10.4% not rated by Fitch; Moody's: 41.4% Aaa and 58.6% Aa1/Aa2/Aa3
Commercial papers (short-term ratings)	None	S&P: 77.0% A-1+ and 23.0% A-1; Fitch: 53.9% F1+, 23.0% F1 and 23.1% not rated by Fitch; Moody's: 100% P-1
Reverse repurchase agreement (short-term ratings)	S&P: 100.0% A-1+; Fitch: 100.0% F1+; Moody's: 100.0% P-1	S&P: 100.0% A-1+; Fitch: 100.0% F1+; Moody's: 100.0% P-1
Term deposits (Fitch viability ratings)	Fitch: 49.2% aa/aa- and 50.8% a+/a/a-	Fitch: 39.1% aa/aa- and 60.9% a+/a
Certificates of deposits	S&P: 100.0% A-1; Fitch: 100.0% not rated by Fitch Moody's: 100.0% P-1	None

61. The United Nations Treasury actively monitors credit ratings, and, given that the main cash pool has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

62. The main cash pool is exposed to the liquidity risk associated with the requirement of participants to make withdrawals on short notice. Sufficient cash and marketable securities are maintained to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments is available within a day's notice to support operational requirements. The main cash pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

63. The main cash pool fixed-rate cash, cash equivalents and investments are the escrow account's interest-bearing financial instruments, which are exposed to interest rate risk. As at the reporting date, the main cash pool invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (December 2016: five years). The average duration was 0.70 years (December 2016: 0.71 years), which is considered to be an indicator of low risk.

Interest rate risk sensitivity analysis

64. As shown, the fair value of the main cash pool as at the reporting date will increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or a shift down of up to 200 basis points in the yield curve is shown below (100 basis points equals 1 per cent). The basis point shifts should be considered to be illustrative.

Main cash pool interest rate risk sensitivity analysis

(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
30 June 2017	103.15	77.36	51.57	25.78	-	(25.78)	(51.55)	(77.32)	(103.09)
31 December 2016	124.35	93.26	62.17	31.08	-	(31.08)	(62.14)	(93.21)	(124.27)

Other market price risk

65. The main cash pool is not exposed to significant other price risk because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value hierarchy

66. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

67. The fair value hierarchy levels are defined as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

68. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian on the basis of the valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held in the main cash pool is the current bid price.

69. The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques which maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

70. The following fair value hierarchy presents the main cash pool assets measured at fair value at the reporting date. There were no level 3 financial assets, nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments: main cash pool

(Thousands of United States dollars)

	30 June 2017			*31 December 2016*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporates	499 529	–	499 529	697 676	–	697 676
Bonds — non-United States agencies	1 191 278	–	1 191 278	1 903 557	–	1 903 557
Bonds — non-United States sovereigns	124 816	–	124 816	124 854	–	124 854
Bonds — supranational	213 833	–	213 833	213 224	–	213 224
Bonds — United States treasuries	589 482	–	589 482	586 739	–	586 739
Commercial papers	–	–	–	149 285	–	149 284
Term deposits/certificates of deposit	–	3 850 013	3 850 013	–	2 840 000	2 840 000
Main cash pool total	**2 618 938**	**3 850 013**	**6 468 951**	**3 675 334**	**2 840 000**	**6 515 334**

Note 7
Other assets

(Thousands of United States dollars)

	30 June 2017	*31 December 2016*
Advances to staff	6	67
Total other assets	**6**	**67**

Note 8
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	30 June 2017	*31 December 2016*
Transfer to the Government of Iraq	136 525	–
Payable to staff member	–	16
Accounts payable to vendor	42	5
Total accounts payable and accrued liabilities	**136 567**	**21**

Note 9
Employee benefits liabilities

(Thousands of United States dollars)

	30 June 2017	*31 December 2016*
After-service health insurance	392	292
Annual leave	96	97
Repatriation benefits	104	111
Subtotal, defined benefit liabilities	**592**	**500**
Accrued home leave entitlements	–	10
Total employee benefits liabilities	**592**	**510**

71. The liabilities arising from post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations and Rules of the United Nations. Full actuarial valuations are usually undertaken every two years. The most recent actuarial valuation was conducted as at 31 December 2015, and the valuation was rolled forward to 30 June 2017.

Actuarial valuation — assumptions

72. Management reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations as at 30 June 2017 are shown in the table below.

Actuarial assumptions

(Percentage)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Discount rates, 31 December 2015 valuation	3.49	3.67	3.73
Discount rates, 30 June 2017 roll-forward	3.25	3.33	3.39
Inflation, 31 December 2015 valuation	4.0–6.4	2.25	
Inflation, 30 June 2017 roll-forward	4.0–6.0	2.25	

73. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (corporate bond yield curve) and Swiss francs (Federation bonds yield curve). Consistent with the decrease observed since 31 December 2015 in the interest rates of all maturities in the three areas, lower discount rates were assumed for the 30 June 2017 roll-forward.

74. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption reflects the current short-term expectations of the after-service health insurance plan's cost increases and economic environment. Medical cost trend assumptions used for the valuation as at 31 December 2015 were: a flat health-care yearly escalation rate of 4.0 per cent for non-United States medical plans, and health-care escalation rates of 6.4 per cent for all other medical plans (except 5.9 per cent for the United States Medicare plan and 4.9 per cent for the United States dental plan), grading down to 4.5 per cent over nine years.

75. With regard to the valuation of repatriation benefits as at 31 December 2015, inflation in travel costs was assumed at 2.25 per cent, based on the projected United States inflation rate over the next 10 years.

76. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1–3 years, 10.9 days; 4–8 years, 1 day; and over 8 years, 0.5 days up to a maximum of 60 days.

77. Assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

Movement in employee benefits liabilities accounted for as defined benefit plans, from 1 January to 30 June 2017

(Thousands of United States dollars)

	2017	*2016[a]*
Net defined benefits liabilities, beginning of period	**510**	**444**
Current service cost	27	45
Interest cost	9	15
Benefits paid	(6)	(6)
Total net costs recognized in the statement of financial performance	**30**	**54**
Actuarial losses recognized directly in the statement of changes in net assets	62	131
Net defined benefits liabilities, end of period	**602**	**505**
Accrued employee benefits	(10)	5
Total employee benefits liabilities, end of period	**592**	**510**

[a] From 1 January to 31 December 2016.

78. The cumulative amount of actuarial gains and losses recognized in the statement of changes in net assets is a net loss of $200,000 (2016: net loss of $138,000).

Medical costs sensitivity analysis

79. The principal assumption in the valuation of after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability due to changes in medical cost rates while holding other assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, this would have an impact on the measurement of the defined benefit obligations as shown in the table below.

(Thousands of United States dollars)

	Increase	*Decrease*
1 per cent movement in the assumed medical costs trend rates: 30 June 2017		
Effect on the defined benefit obligation	145	(103)
Effect on the aggregate of the current service cost and interest cost	10	(28)
1 per cent movement in the assumed medical costs trend rates: 31 December 2015		
Effect on the defined benefit obligation	90	(65)
Effect on the aggregate of the current service cost and interest cost	17	(12)

Discount rate sensitivity analysis

80. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate or government bonds. The bonds markets have been volatile over the reporting period, and the volatility has an impact on the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown in the table below.

Discount rate sensitivity to end-of-year employee benefits liabilities

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
As at 30 June 2017			
Increase of discount rate by 1 per cent	(101)	(10)	(8)
as a percentage of end-of-year liability	(26%)	(10%)	(8%)
Decrease of discount rate by 1 per cent	142	11	9
as a percentage of end-of-year liability	36%	11%	9%
As at 31 December 2015			
Increase of discount rate by 1 per cent	(63)	(11)	(9)
as a percentage of end-of-year liability	(26%)	(11%)	(9%)
Decrease of discount rate by 1 per cent	90	12	11
as a percentage of end-of-year liability	37%	12%	12%

United Nations Joint Staff Pension Fund

81. The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

82. The escrow account's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

83. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (a deficit of 1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as of 31 December 2017.

84. As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (86.20 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

85. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

86. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed by visiting the Fund's website.

Note 10
Liquidation reserve

87. The liquidation reserve was created for the expenses of staff salary and benefits from July to September 2017 and for the fee for the audit of these financial statements.

(Thousands of United States dollars)

	30 June 2017
Reserve for staff salary, allowances and benefits, July–September 2017	151
Fee for the audit of 1 January–30 June 2017 financial statements	20
Total liquidation reserve	**171**

Note 11
Net assets

88. Net assets, which amounted to $15.8 million as at 30 June 2017 (31 December 2015: $151.9 million), represent the residual interest in the assets of the escrow account after the deduction of all liabilities and liquidation reserve. The financial statements reflect the aggregation of two funds, the administration fund and the indemnification reserve fund (see note 4).

Note 12
Expenses

89. Expenses of $137.1 million represent those related to the termination of residual activities of the oil-for-food programme in the amount of $0.6 million (2016: $0.7 million) and to the transfer of remaining funds to the Government of Iraq in the amount of $136.5 million (2016: none). There was no expense related to the Office of the Independent Inquiry Committee to support the investigations and proceedings of Member States (2016: none).

Note 13
Related parties

Key management personnel

90. Key management personnel are those with the ability to exercise significant influence over financial and operating decisions of the escrow account and comprise the Secretary-General, the Deputy Secretary-General and certain officials at the Under-Secretary-General and Assistant Secretary-General levels in the Department of Management of the Secretariat. During the year, the escrow account paid no remuneration or other benefits to key management personnel or close family members. As at the reporting date, there were no advances or loans issued to key management personnel from the escrow account.

Note 14
Contingent liabilities and contingent assets

91. The Government of Iraq agreed on 29 June 2017 to provide appropriate indemnification to the United Nations and its representatives, agents and independent contractors with regard to all activities undertaken in connection with the oil-for-food

programme since its inception. Under the agreement, the Government of Iraq also agreed to provide a waiver of any future claims that it may have against the United Nations, its representatives, agents and independent contractors with regard to all activities undertaken in connection with the oil-for-food programme since its inception. There are no contingent assets.

Note 15
Events after the reporting date

92. Advances, accounts payable and accrued liabilities, including employee benefits, which are reported in statement I, had been fully settled by 30 September 2017. The liquidation reserve was utilized for staff salaries, allowances and benefits for the period from July to September 2017. The reserve for the audit fee was retained for the settlement of the fee.

93. In addition to the transfer of $136.5 million reported in these financial statements, an amount of $16.2 million more had been transferred to the Government of Iraq by 30 September 2017. The total transfer to the Government of Iraq amounted to $152.7 million.

Changes in net assets for the period from 1 July to 30 September 2017

(Thousands of United States dollars)

Net assets, 1 July 2017	**15 776**
Changes in net assets	
Reversal of the unrealized loss in cash pool investment	407
Transfer to the Government of Iraq	(16 183)
Net assets, 30 September 2017	**–**